

Message Text

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SUBJECT: ARTICLE 19 FOOTWEAR CONSULTATIONS WITH GOC

REF: (A) OTTAWA 754, (B) TPSC 78-26, (C) BRUSSELS 1722

1. SUMMARY: IN SECOND ROUND OF ARTICLE 19 CONSULTATIONS REGARDING GOC'S RECENT IMPOSITION OF FOOTWEAR QUOTAS, CANDEL FAILED TO AGREE TO U.S. REQUESTS TO EXCLUDE ITEMS OF MAJOR U.S. EXPORT INTEREST FROM QUOTA COVERAGE AND/OR GRANT COMPENSATORY TARIFF REDUCTIONS. USDEL INFORMED CANADIANS THAT WE HAVE NO ALTERNATIVE BUT TO CONSIDER LIMITED OFFICIAL USE
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POSSIBILITY OF RETALIATION IN LIGHT OF DISCOURAGING CANADIAN RESPONSE TO US REQUESTS. CANADIAN DELEGATION ALSO SUPPLIED SOME STATISTICAL AND PROCEDURAL INFORMATION REQUESTED BY USDEL IN PREVIOUS CONSULTATION. ACTION REQUESTED: STATUS REPORTS ON EC-CANADIAN CONTACTS REGARDING THIS ISSUE AND CONFIRMATION OF DATE OF APRIL 18 OR 20 FOR NEXT ROUND OF CONSULTATIONS. END SUMMARY.

2. US AND CANADIAN DELEGATIONS MET MARCH 15 IN WASHINGTON FOR SECOND ROUND OF CONSULTATIONS REGARDING CANADA'S

DECEMBER 1 IMPOSITION OF QUOTAS ON FOOTWEAR IMPORTS.
MCPHAIL (EXTERNAL AFFAIRS) CHAIRED CANADIAN DELEGATION;
STEWART (STR) CHAIRED US DELEGATION.

3. US DELEGATION OPENED CONSULTATIONS BY REQUESTING
INFORMATION REGARDING STATISTICAL BREAKDOWN AND ADMINI-
STRATION OF SYSTEM PROMISED BY CANADIAN DELEGATION IN FIRST
ROUND. CANDEL RESPONDED THAT FOLLOWING ADMINISTRATIVE
CHANGES HAVE BEEN MADE IN SYSTEM SINCE FEBRUARY MEETING.

(A) EXCLUSION OF "HIGH-FASHION" FOOTWEAR FROM QUOTA
COVERAGE. THIS CATEGORY INCLUDES, BUT IS NOT LIMITED TO,
DESIGNER FOOTWEAR OR FOOTWEAR HISTORICALLY MARKETED IN
EXPENSIVE BOUTIQUES. CHANGE WILL BENEFIT SOME U.S. EXPORTS.

(B) ELIMINATION OF "UPPERS" (TOPS OF SHOES) FROM
QUOTA COVERAGE. THIS EXCLUSION WILL EASE PRESSURE ON
GLOBAL QUOTA BY APPROXIMATELY ONE MILLION PAIR ALTHOUGH
U.S. DOES NOT EXPORT UPPERS THEMSELVES TO CANADA.

(C) RELEASE OF FULL ANNUAL QUOTA ALLOCATION TO AID
IMPORTERS IN LONG-TERM PLANNING. THIS MEASURE WILL GIVE
IMPORTERS MORE FLEXIBILITY THAN THE 64 PERCENT OF PER-
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FORMANCE PERIOD IMPORTS ALLOWED IN PROGRAM'S EARLY STAGES.

4. TURNING TO QUESTION OF STATISTICAL CODES FOR FOOT-
WEAR IMPORTS, CANDEL REITERATED VIEW THAT 17 OSIP CODES
ARE SIMPLY NEW BASIS FOR MONITORING IMPORTS AND THAT NO
EFFORT IS BEING MADE TO HOLD IMPORTERS STRICTLY TO IMPORT
PATTERN DEFINED BY OSIP CODE CATEGORIES IN PERFORMANCE
PERIOD. ONLY IN EXCEPTIONAL CIRCUMSTANCES, I.E. IF IMPORTS
IN ONE CATEGORY APPEARED GROSSLY EXCESSIVE, WOULD GOC
ADMINISTRATORS TAKE ACTION AGAINST THE IMPORTER.

5. CANDEL SUPPLIED FOLLOWING STATISTICAL DATA REQUESTED
BY USDEL AT PREVIOUS MEETING:

(A) TOTAL CANADIAN MARKET FOR FOOTWEAR BY VALUE,
(1974, 1975, 1976, AND FIRST TEN MONTHS OF 1977): AS
EXPECTED, US SHARE OF CANADIAN MARKET IS GREATER IF MEA-
SURED BY VALUE THAN IF MEASURED BY VOLUME (I.E. NUMBER OF
PAIRS EXPORTED). ON VALUE BASIS, US SHARE OF CANADIAN
IMPORT MARKET VARIED BETWEEN HIGH OF 8.9 PERCENT IN 1976
TO A LOW OF 8.4 PERCENT IN 1975, WHILE VOLUME SHARE
AVERAGED APPROXIMATELY 6 PERCENT. (CANADIANS WERE UNABLE
TO PROVIDE VALUE FIGURES LIMITED TO PRODUCTS COVERED BY
QUOTA, BUT VOLUME DIFFERENTIAL INDICATES DIFFERENCES WOULD
BE MINIMAL.)

(B) FIVE CATEGORY BREAKDOWN OF CANADIAN IMPORTS BY

VALUE: LARGEST DOLLAR AND PERCENTAGE SHARE FOR 1976
IS "MEN AND BOY'S FOOTWEAR" AT 5.7 MILLION (CAN) DOLLARS OR
12.4 PERCENT OF IMPORTS.

(C) IMPORT PERMITS ISSUED FROM DECEMBER 1 TO
FEBRUARY 28: CANDEL POINTED OUT THAT PERMITS ISSUED
WERE LOWER THAN EXPECTED IN ALL CATEGORIES: IMPORTS FROM
US WERE PARTICULARLY LOW (2.3 PERCENT OF TOTAL). CANDEL
CAUTIONED, HOWEVER, THAT LICENSES ISSUED ARE NOT A
DEFINITIVE INDICATOR AT THIS EARLY STAGE OF PROGRAM'S
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OPERATION. WHEN USDEL NONETHELESS EXPRESSED CONCERN RE-
GARDING THE LOW SHARE OF US IMPORTS, CANDEL NOTED THAT
CANADIAN INVESTIGATION OF LOW US SHARE INDICATES THAT LEAD
TIME FOR US IMPORTS IS FAR LESS THAN THAT NECESSARY FOR
IMPORTS FROM FAR EAST AND EUROPE. AS A RESULT PERMITS
HAVE ALREADY BEEN REQUESTED FOR "SPRING LINE" IMPORTS FROM
OVERSEAS, BUT MOST PERMITS FOR IMPORTS FROM U.S. WILL
PROBABLY ONLY BE REQUESTED IN MARCH. THE U.S. SHARE CAN
THEREFORE, BE EXPECTED TO RISE IN THE NEXT BIMONTHLY
REPORTING PERIOD.

6. FOLLOWING STATISTICAL PRESENTATION AND CLARIFICATION
OF SYSTEM'S ADMINISITRATIVE PROCEDURES, USDEL NOTED IT
WOULD BE POINTLESS TO REVIEW "THEOLOGICAL" POSITIONS
OF BOTH GOVERNMENTS REGARDING THE RIGHT TO COMPENSATION
OR RETALIATION TO RESTORE THE BALANCE OF CONCESSIONS
AND EMPHASIZED THAT USDEL IS LOOKING FOR SOLUTION THAT
WOULD NOT PREJUDICE EITHER SIDE'S THEOLOGICAL POSITION.
USDEL ASKED IF GOC HAS CONSIDERED POSSIBILITY OF EX-OUTS
AND REFERRED TO MCPHAIL'S FEBRUARY STATEMENT THAT CANADIANS
WOULD CONSIDER DELETING CERTAIN ITEMS FROM QUOTA COVERAGE
(PARA. 12, REF A).

7. MCPHAIL RESPONDED THAT REMARKS QUOTED BY USDEL "PUSHED
ME FURTHER THAN I INTENDED TO GO". CANADIANS WOULD LOOK
AT EX-OUTS ONLY IN CONTEXT OF "THEOLOGICAL" POSITION, BUT
GOC WANTS AN "HONEST AND RESPECTABLE SYSTEM" AND WOULD
THEREFORE CONSIDER MODIFICATIONS DICTATED BY THE
LOGIC OF THE SYSTEM. CANDEL, AS AN ASIDE, SAID GOC
HAS INVESTIGATED PREVIOUS ARTICLE 19 CASES INVOLVING THE
US AND DISCOVERED THE US HAS NOT SOUGHT COMPENSATION IN
EVERY CASE.

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8. CANDEL ADDRESSED SPECIFIC ITEMS THAT USDEL ASKED TO BE

CONSIDERED FOR ELIMINATION FROM QUOTA COVERAGE:

(A) COWBOY BOOTS: CANDEL POINTED OUT THAT CANADIAN COWBOY BOOT MANUFACTURERS ARE ALSO SUFFERING FROM IMPORT

COMPETITION. CANDEL NOTED THAT CANADIAN PRODUCERS, LOCATED IN HIGH-UNEMPLOYMENT AREAS, MAKE FULL RANGE OF COWBOY BOOTS (I.E., "HIGH STYLE" BOOTS AND EVERYDAY BOOTS) AND ASKED USDEL TO SUPPLY FURTHER INFORMATION REGARDING ITS PARTICULAR MARKET INTEREST IN COWBOY BOOTS FOR FURTHER CONSIDERATION BY GOC. USDEL RESPONDED THAT US REQUEST PURPOSEFULLY EXCLUDED LOW-PRICED COWBOY BOOTS FROM FAR EAST AND HIGHLIGHTED ITEMS WHERE US HAS AT LEAST 50 PERCENT OF THE MARKET, BUT THAT US WILL PROVIDE FURTHER INFORMATION AFTER CONSULTATIONS WITH COWBOY BOOT MANUFACTURERS.

(B) MEN'S GOLF SHOES: CANDEL EXPRESSED SURPRISE AT WORDING OF US REQUEST (GOLF SHOES VALUED OVER TWENTY-FIVE DOLLARS PER PAIR) SINCE MOST US EXPORTS COME IN UNDER THIS PRICE. USDEL RESPONDED THAT WORDING OF US REQUEST REFLECTED INTERESTS OF SEVERAL US MANUFACTURERS WITH VARYING PRICE RANGES. CANDEL SAID GOC WOULD LOOK AT SITUATION IN MEN'S GOLF SHOES ONCE AGAIN BUT WAS NOT OPTIMISTIC THAT THEY COULD BE DELETED FROM QUOTA COVERAGE. THERE ARE SIX OR SEVEN PRODUCERS OF MEN'S GOLF SHOES IN CANADA WHO ARE ALSO UNDER PRESSURE FROM IMPORT COMPETITION.

(C) WOMEN'S GOLF SHOES: CANDEL NOTED THAT GOC WOULD LIKE TO STUDY FURTHER SITUATION IN WOMEN'S GOLF SHOES, SINCE IT APPEARED (AT GOC'S FIRST REVIEW) THERE IS LITTLE CANADIAN PRODUCTION OF THE ITEM. THE SYSTEM SHOULD NOT EXCLUDE ITEMS NOT MANUFACTURED IN CANADA, BUT GOC MUST EXAMINE POSSIBILITY OF SHIFT IN PRODUCTION FROM MEN'S TO WOMEN'S SHOES AND OTHER ECONOMIC FACTORS BEFORE LIMITED OFFICIAL USE
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RESPONDING TO US REQUEST.

(D) INFANTS' SHOES: CANDEL AGAIN SAID GOC SOMEWHAT PERPLEXED BY US REQUEST FOR ELIMINATION FROM QUOTA FOR ITEMS IN THIS LINE, AND GOC "DOES NOT SEE MUCH THAT COULD BE DONE." USDEL REPLIED THAT US INTEREST FOCUSES ON A FEW ITEMS WHERE US HAS A MAJOR SUPPLIER INTEREST AND THAT POSSIBILITY OF SHIFTING LICENSED IMPORTS FROM ADULTS' TO CHILDREN'S SEEMED TO INDICATE THAT CHILDREN'S FOOTWEAR MANUFACTURERS ARE SUFFERING LESS FROM IMPORT COMPETITION.

(E) MEDICAL/WELFARE PROFESSION FOOTWEAR: CANDEL AGAIN NOTED HIGH LEVEL OF IMPORT COMPETITION DAMAGING TO FOUR

CANADIAN PRODUCERS (TWO IN ONTARIO AND TWO IN QUEBEC).
USDEL AGREED TO PROVIDE FURTHER INFORMATION REGARDING US
EXPORTS IN THIS SECTOR.

(F) OTHER: IN RESPONSE TO US QUESTION, CANDEL SAID
REVIEW OF FULL SEVEN-DIGIT IMPORT STATISTICS PRODUCED NO
ADDITIONAL ITEMS OF MAJOR U.S. SUPPLIER INTEREST WHICH
MIGHT BE ELIMINATED FROM QUOTA COVERAGE.

9. USDEL EXPRESSED DISAPPOINTMENT WITH DISCOURAGING
CANADIAN RESPONSE AND ASKED IF ANY CANADIAN PRODUCTION
OF AN ITEM ELIMINATED POSSIBILITY OF EX-OUT. CANDEL
REPLIED THAT GOC MUST LOOK IN EACH CASE AT MIX OF A FIRM'S
PRODUCTS AND THE OVERALL COMPETITIVENESS OF THE FIRM.
HOWEVER, GOC IS IN NO WAY WILLING TO ADJUST SYSTEM TO
AFFECT INTERESTS OF A PARTICULAR TRADING PARTNER. WHEN
ASKED ABOUT COMPENSATORY TARIFF REDUCTIONS,
CANDEL GAVE EQUALLY NEGATIVE REPLY.

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10. CANDEL THEN ASKED USDEL TO CONSIDER POSSIBILITY OF
CONSULTATIONS IN EARLY MAY WHEN ADDITIONAL STATISTICAL
INFORMATION REGARDING IMPACT OF SYSTEM ON US TRADE
INTERESTS WILL BE AVAILABLE. GOC SEES NO MERIT IN REACH-
ING INTRACTABLE POSITION RESULTING IN REFERRAL TO CON-
TRACTING PARTIES SINCE DELICATE MTN NEGOTIATIONS REGARDING
SAFEGUARDS ARE UNDERWAY IN GENEVA. HOWEVER, IF U.S. TAKES
RETALIATORY ACTION, CANDEL WILL RECOMMEND THAT GOC SEEK
CONTRACTING PARTIES' DISAPPROVAL.

11. USDEL REPEATED VIEWS THAT (A) PRESENT ARTICLE 19
STILL GOVERN UTHIS QUESTION, (B) DEMONSTRATION
OF INJURY IS NOT REQUIRED, AND (C) SPEEDY RESOLUTION OF
THE ISSUE IS NECESSARY. U.S. WOULD PREFER TO AVOID
RETALIATORY ACTION, BUT IF CANADIANS ARE UNWILLING
TO CONSIDER COMPENSATION AND/OR ELIMINATION OF ITEMS
OF MAJOR US SUPPLIER INTEREST FROM QUOTA COVERAGE, US
WOULD HAVE NO CHOICE BUT TO CONSIDER UNILATERAL MEASURES.
USDEL NOTED SUBSTANTIAL EX-OUTS MIGHT ALLOW BOTH SIDES
"TO SETTLE THE REST OF THE BILL" WITHOUT PREJUDICE TO
RESPECTIVE "THEOLOGICAL POSITIONS" BUT DID NOT TABLE TPSC
RECOMMENDATION THAT CANADIANS FOREGO GATT RIGHTS ON
SPECIALTY STEEL IN RETURN FOR LIKE US ACTION RE REMAINDER
OF U.S. TRADE AFFECTED BY FOOTWEAR QUOTA AFTER EX-OUTS.

12. CANDEL NOTED THAT GOC IS UNDER PRESSURE FROM EC, BRA-
ZIL AND OTHER SUPPLIERS AND INDICATED THAT ANY CON-
CESSIONS TO US IN EX-OUTS OR COMPENSATORY TARIFF CUTS
WOULD SPARK DEMANDS FOR SIMILAR TREATMENT. THESE SUPPLIERS,
WHOSE INTERESTS ARE "MORE SUBSTANTIAL", AGREED TO POST-

PONE FURTHER CONSULTATIONS UNTIL MAY TO REVIEW PROGRESS OF SYSTEM. GOC HOPED THAT US WOULD FEEL CONSTRAINED TO DO THE SAME GIVEN ONGOING MTN IN GENEVA.

13. USDEL NOTED THAT CANADIANS COULD ARGUE TO OTHER SUPPLIERS THAT SIMILARITIES OF US AND CANADIAN INDUSTRIES LIMITED OFFICIAL USE
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(HIGH WAGE LEVELS, SIMILAR PRODUCTS) MAKE IT POSSIBLE TO ELIMINATE FROM QUOTA COVERAGE PRODUCTS OF MAJOR US EXPORT INTERESTS. CANDEL RESPONDED THAT IMPORT COMPETITION COMES NOT ONLY FROM LOW-WAGE SOURCES.

14. USDEL REQUESTED AND RECEIVED CANADIAN AGREEMENT IN PRINCIPLE TO FURTHER CONSULTATIONS IN MID-APRIL AND TO TWO FURTHER EXTENSIONS OF US GATT RIGHTS UNDER ARTICLE 19 (OUR CURRENT EXTENSION WILL EXPIRE MAY 14). WHILE PROMISING TO REVIEW CANADIAN PRESENTATION, USDEL REPEATED THAT US MUST ALSO NOW CONSIDER UNILATERAL MEASURES TO RESTORE THE BALANCE OF CONCESSIONS.

15. ACTION REQUESTED: IT APPEARS FROM MCPHAIL'S REMARKS CITED PARA 12 ABOVE THAT PRESSURES FROM OTHER SUPPLIERS, PRINCIPALLY EC, ARE MAIN REASON FOR CANADIAN RE-TREAT FROM MORE POSITIVE ATTITUDE ON EX-OUTS DISPLAYED AT FEBRUARY CONSULTATION. ACTION ADDRESSEES ARE THEREFORE REQUESTED TO PROVIDE STATUS REPORTS ON EC-CANADIAN CONTACTS REGARDING THIS ISSUE. (WE ARE REPEATING REF A FOR USEC'S INFO.) IN ADDITION, EMBASSY IS REQUESTED TO PROPOSE APRIL 18 OR 20 AS DATE OF NEXT CONSULTATION, WHICH WOULD BE HELD IN OTTAWA. VANCE

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